

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 NSC-04 NSCE-00 INR-01 CIAE-00

EUR-03 TRSE-00 FRB-01 /018 W
----- 124621

P R 211130Z MAY 75
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 1203
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION EC BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY OTTAWA
AMEMBASSY PARIS
USMISSION OECD PARIS
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 7372

LIMDIS GREENBACK

PASS TREASURY FOR WIDMAN; PASS FRB

E.O. 11652: GDS
TAGS: EFIN, IMF, IT
SUBJECT: G-10 DEPUTIES MEETING MAY 15

REF: ROME 6000

1. SUMMARY. BOI VICE DIRECTOR GENERAL AND CHAIRMAN OF G-10 DEPUTIES, OSSOLA, DESCRIBED TO TREASATT MAY 21 HIS VIEW OF RESULTS OF MAY 15 G-10 DEPUTIES MEETING. AS RESULT OF MEETING, OSSOLA WAS NOT OPTIMISTIC ABOUT PROSPECTS OF REACHING AGREEMENT ON IMF QUOTAS, GOLD AND FOREIGN EXCHANGE REGIME IN TIME FOR JUNE 10-11 INTERIM COMMITTEE MEETING. WHILE FAILURE TO REACH AGREEMENT MIGHT NOT BE SERIOUS IN

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ECONOMIC TERMS, HE WAS SOMEWHAT TROUBLED BY POLITICAL

IMPLICATION OF FAILING TO REACH AGREEMENT. HE THOUGHT THAT ISSUES WOULD NEED TO BE SOLVED AT POLITICAL LEVEL, POSSIBLY BY EVENTUAL BILATERAL AGREEMENT BETWEEN US AND FRENCH. END SUMMARY.

2. OSSOLA SAID THAT IMMEDIATELY AFTER G-10 DEPUTIES MEETING HE HAD BEEN QUITE PESSIMISTIC ABOUT POSSIBILITIES OF REACHING AGREEMENT ON THREE MONETARY REFORM QUESTIONS IN TIME FOR JUNE MEETING OF INTERIM COMMITTEE. ON LATER REFLECTION, HE THOUGHT THAT AGREEMENT WAS NOT TOTALLY IMPOSSIBLE, EVEN AT THIS LATE DATE. OSSOLA ADMITTED THAT FAILURE TO REACH AGREEMENT ON THESE ECONOMIC ISSUES WOULD NOT LIKELY HAVE SERIOUS ADVERSE EFFECTS WITHIN G-10 COUNTRIES, BUT HE WAS SOMEWHAT TROUBLED BY POLITICAL FALL OUT IF INTERIM COMMITTEE MINISTERS WERE PUBLICLY SHOWN TO UNABLE TO REACH EVEN MINIMUM AGREEMENT ON REFORM.

3. IMF QUOTAS. OSSOLA REPORTED THAT US HAD INDICATED THAT IT COULD NOT ACCEPT JOINT EC PROPOSAL. HE SIAD THAT SECRETARY SIMON HAD PREVIOUSLY CLAIMED THAT AGREEMENT HAD BEEN REACHED IN BIG FIVE NOT TO REDUCE US QUOTA, BUT THAT FRENCH CLAIMED THAT SUBJECT HAD NOT EVEN BEEN DISCUSSED. ON OTHER HAND, HE CLEARLY RECALLED THAT SECRETARY SIMON HAD TAKEN POSITION AGAINST REDUCTION IN US QUOTA DURING LAST INTERIM COMMITTEE MEETING AND NO ONE HAD CONTRADICTED HIM. OSSOLA SAID THAT HE HAD REMINDED EC PARTNERS OF THIS.

4. GOLD. ON GOLD, OSSOLA SAID THAT THERE WAS A LARGE MAJORITY IN FAVOR OF "ENABLING" PROVISION TO PERMIT EXECUTIVE DIRECTORS, AT LATER DATE, TO DETERMINE FUTURE OF IMF GOLD. HE THOUGHT THAT QUESTION WAS NOT YET RIPE FOR DECISION AND THAT IT HAD BETTER BE LEFT IN SUSPENSE FOR TIME BEING. MORE IMPORTANT QUESTION WAS WORKING AGREEMENT AMONG CENTRAL BANKS AS TO USE OF THEIR GOLD. EVENTUALLY SOME KIND OF COMPROMISE MIGHT BE REACHED IN IMF, PERHAPS INVOLVING SOME SALES OF GOLD IN MARKET AND PARTIAL RETURN OF ORIGINAL GOLD CONTRIBUTIONS.

5. EXCHANGE RATE REGIME. ON EXCHANGE RATE REGIME, OSSOLA SAID THAT HE HAD BEEN RATHER SYMPATHETIC TO US PROPOSAL
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BUT THAT IT HAD NOT EVEN MENTIONED THE WORD "PARITY" AND THAT IT WENT BEYOND MANDATE GIVEN BY INTERIM COMMITTEE. HE THOUGHT THAT FRENCH PROPOSAL, TOO, WAS OUTSIDE OF THIS MANDATE. HE WAS SOMEWHAT HOPEFUL THAT IMF STAFF PROPOSAL COULD SOMEHOW BE BASIS FOR COMPROMISE. (HE BRIEFLY DESCRIBED PROPOSAL AS INVOLVING AGREEMENT ON INTERIM SYSTEM OF FLOATING RATES WITH RULES, WITH TWO POSSIBLE OPTIONS REGARDING EVENTUAL DECLARATION OF PARITIES.) WHEN HE HAD ASKED ABOUT

ACCEPTABILITY OF IMF PROPOSAL AS BASIS FOR FURTHER DISCUSSION, NEITHER US, FRANCE NOR OTHER COUNTRIES OPENLY OBJECTED. HE RECOGNIZED THAT THIS DID NOT NECESSARILY INDICATE AGREEMENT. IN FINAL ANALYSIS, OSSOLA BELIEVED THAT EVOLUTION OF EXCHANGE MARKET WOULD DETERMINE NATURE OF FUTURE SYSTEM AND THAT THESE DISCUSSIONS WERE, TO LARGE EXTENT, THEORETICAL.

6. FOLLOW-UP. OSSOLA THOUGHT THAT G-10 DEPUTIES MEETING HAD BEEN VERY HELPFUL IN CLARIFYING POSITIONS, PARTICULARLY THAT OF US AND FRANCE. HE THOUGHT THAT IT WAS NOW INCUMBENT UPON G-10 MINISTERS TO DECIDE THESE POLITICAL ISSUES, ALTHOUGH TWO-HOUR MEETING PRIOR TO INTERIM COMMITTEE MEETING IN JUNE WOULD PROVIDE LITTLE TIME TO RECONCILE DIFFERING POSITIONS. POSSIBLY SOMETHING COULD BE DONE INFORMALLY AT OECD MINISTERIAL MEETING MAY 28-29, BUT ALL OF APPROPRIATE MINISTERS WOULD NOT BE THERE. (TREASURY MINISTER COLOMBO WILL NOT ATTEND SINCE OECD MINISTERIAL IS RESPONSIBILITY OF MINISTER OF BUDGET AND PLANNING ANDREOTTI.) OSSOLA PLANS TO INFORM CANADIAN FINANCE MINISTER TURNER OF RESULTS OF DEPUTIES MEETING AND WILL PROBABLY STRESS VIEW THAT ONLY HIGH-LEVEL POLITICAL DECISIONS BY MINISTERS CAN BREAK CURRENT LOG JAM. IN MEANTIME, OSSOLA DOES NOT CONTEMPLATE MEETING OF DEPUTIES BEFORE G-10 MINISTERIAL MEETING IN JUNE.

7. EC FINANCE MINISTERS MEETING. OSSOLA HAD JUST RETURNED FROM MAY 20 MEETING OF EC FINANCE MINISTERS. HE SAID THAT MR. ORT HAD BEEN ASKED TO DESCRIBE JOINT EC POSITION AND OSSOLA HAD OUTLINED RESULTS OF G-10 DEPUTIES MEETING. EXCEPT FOR BRIEF COMMENT BY FRENCH MINISTER FOURCADE REPEATING FRENCH POSITION, NO OTHER MINISTER HAD ANYTHING TO SAY ABOUT MONETARY REFORM QUESTION. REACTION SEEMED TO REFLECT GENERAL CONFIDENTIAL

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BELIEF THAT FRENCH WOULD NOT CHANGE THEIR POSITION. OSSOLA CONCLUDED THAT, IN THE END, US AND FRENCH MIGHT HAVE TO DECIDE BILATERALLY ON COMPROMISE, WITH WHICH OTHER EC PARTNERS WOULD PROBABLY GO ALONG. HE WAS NOT SURE WHETHER ANY SUCH BILATERAL CONTACTS WERE TAKING PLACE OR WERE CONTEMPLATED. VOLPE

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOLD, AGREEMENTS, PERSONAL OPINION, FOREIGN EXCHANGE RATES, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME07372
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750180-0953
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750531/aaaabtp.tel
Line Count: 160
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 ROME 6000
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 10 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 APR 2003 by lzenbel0>; APPROVED <26 SEP 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: G-10 DEPUTIES MEETING MAY 15
TAGS: EFIN, IT, IMF, (OSSOLA, RINALDO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006